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FORM 10-Q

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

X Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 1992

or

___ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period from _____ to _____

Commission File Number: 0-17923

GATEWAY FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	06-1272400
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

383 Main Avenue, Norwalk, Connecticut	06851
(Address of principal executive offices)	(Zip Code)

(203) 845-7700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

Indicate the number of shares outstanding for the issuer's classes of common stock, as of the latest practicable date.

Common Stock (par value $.01)	7,424,619 Shares
(Class)	(Outstanding Shares as of July 31, 1992)

GATEWAY FINANCIAL CORPORATION

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GATEWAY FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEET
(Dollars in Thousands)

	June 30, 1992 (Unaudited)	December 31, 1991
ASSETS		
Cash and Cash Equivalents:		
Cash and due from banks	$ 33,035	$ 29,537
Federal funds sold	18,400	30,710
Total Cash Equivalents	51,435	60,247
Mortgage-backed securities (market value $82,165 in 1992 and $79,847 in 1991)	81,788	82,494
Investment securities (market value $69,193 in 1992 and $123,868 in 1991)	65,603	120,105
Federal Home Loan Bank stock	14,694	14,694
Loans	1,124,702	1,150,698
Unearned income	(7,122)	(7,781)
Allowance for loan losses	(26,916)	(28,182)
Net Loans	1,090,664	1,114,735
Accrued income receivable	11,462	11,584
Premises and equipment, net	9,972	11,150
Other real estate owned, net	54,536	63,356
Income taxes receivable	78	2,805
Other assets	33,990	15,783
Total Assets	$1,414,222	$1,496,953
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing	$1,223,543	$1,297,070
Non-interest bearing	47,349	44,732
Total Deposits	1,270,892	1,341,802
Advances from Federal Home Loan Bank	50,000	60,000
Mortgagors' escrow accounts	7,088	6,813
Other liabilities	6,572	11,948
Total Liabilities	1,334,552	1,420,563
Contingencies and commitments: Note D		
Stockholders' Equity:		
Common stock, $.01 par value: authorized 20,000,000 shares; issued 8,008,619 shares in 1992 and 8,006,619 shares in 1991	80	80
Paid-in capital	56,383	56,379
Retained earnings	26,183	22,907
Treasury stock, at cost, 584,000 shares	(2,976)	(2,976)
Total Stockholders' Equity	79,670	76,390
Total Liabilities and Stockholders' Equity	$1,414,222	$1,496,953

See Notes to Consolidated Financial Statements.

GATEWAY FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)
(In Thousands, Except Per-Share Amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1992	1991	1992	1991
Interest and dividend income:				
Loans, including fees	$24,269	$22,003	$49,694	$44,064
Mortgage-backed securities	1,117	656	2,502	2,424
Investment securities:				
Taxable interest	966	1,536	2,553	3,117
Tax-exempt interest	5	27	9	67
Dividends	342	345	706	617
	1,313	1,908	3,268	3,801
Other	823	167	1,060	384
Total interest and dividend income	27,522	24,734	56,524	50,673
Interest expense:				
Deposits	13,568	13,993	28,964	28,576
Borrowed funds	879	3,234	1,932	6,986
Total interest expense	14,447	17,227	30,896	35,562
Net interest income	13,075	7,507	25,628	15,111
Provision for loan losses	3,600	2,000	6,700	4,500
Net interest income after provision for loan losses	9,475	5,507	18,928	10,611
Other income:				
Service charges and other	2,687	805	4,507	1,574
Net security gain (loss)	(16)	62	(413)	363
Net gain on sales of mortgages	760	1,340	2,254	1,340
Total other income	3,431	2,207	6,348	3,277
Operating expenses:				
Salaries and benefits	3,879	3,228	7,650	6,329
Occupancy and equipment	1,542	1,593	3,118	2,985
FDIC insurance assessment	637	437	1,274	873
Net other real estate owned and loan workout expenses	3,680	2,897	6,100	5,191
Other	2,085	1,382	3,741	2,645
	11,823	9,537	21,883	18,023
Income (loss) before income taxes and extraordinary credit	1,083	(1,823)	3,393	(4,135)
Income tax provision (benefit)				
Current	117	(952)	117	(1,917)
Deferred		269	830	382
	117	(683)	947	(1,535)
Income (loss) before extraordinary credit	966	(1,140)	2,446	(2,600)
Extraordinary credit from utilization of tax loss carryforwards			830	
Net income (loss)	$ 966	$(1,140)	$ 3,276	$(2,600)
Income (loss) per share before extraordinary credit	$ .13	$ (.15)	$ .33	$ (.35)
Extraordinary credit per share			.11	
Net income (loss) per share	$ .13	$ (.15)	$ .44	$ (.35)

See Notes to Consolidated Financial Statements.

GATEWAY FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
(Dollars In Thousands)

1992	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock
Balance at December 31, 1991	$80	$56,379	$22,907	$(2,976)
Net income			3,276	
Stock options exercised	—	4	—	—
Balance at June 30, 1992	$80	$56,383	$26,183	$(2,976)

1991				
Balance at December 31, 1990	$80	$56,379	$38,010	$(2,757)
Net loss			(2,600)	
Purchase of 109,500 treasury shares	—	—	—	(219)
Balance at June 30, 1991	$80	$56,379	$35,410	$(2,976)

See Notes to Consolidated Financial Statements.

GATEWAY FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(In Thousands)

	Six Months Ended June 30, 1992	1991 (a)
OPERATING ACTIVITIES		
Net income (loss)	$ 3,276	$ (2,600)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Extraordinary credit from utilization of tax-loss carryforwards	(830)	
Provision for loan losses	6,700	4,500
Provision for depreciation and amortization	588	697
Net amortization of security discounts and premiums	1,273	1,446
Amortization of deferred mortgage origination fees	(213)	(461)
Provision for other real estate owned	450	1,065
Mark-to-market writedowns of insubstance foreclosures and other real estate owned	3,849	1,783
Deferred income taxes	830	382
Security losses (gains)	413	(363)
Decrease in interest receivable	122	937
(Decrease) in interest payable	(2,747)	(1,575)
Decrease in income taxes receivable	8,806	6,601
Realized gain on sale of premises and equipment	(122)	
Realized gain on mortgage sales	(2,254)	(1,340)
Realized deferred revenue	(725)	
Other net	(3,306)	(1,660)
Net cash provided by operating activities	16,110	9,412
INVESTING ACTIVITIES		
Proceeds from sales of securities	5,514	16,691
Proceeds from maturities of securities	72,544	16,549
Purchases of securities	(35,020)	(15,307)
Purchase of residential mortgages	(19,740)	(32,545)
Loans originated net of principal collected	(21,936)	(13,363)
Purchases of premises and equipment	(1,651)	(194)
Proceeds from sale of premises and equipment	2,363	
Proceeds from loan sales	47,696	38,281
Capital expenditures for other real estate owned	(2,585)	(3,953)
Proceeds from sale of other real estate owned	8,524	7,077
Net cash provided by investing activities	55,709	13,236
FINANCING ACTIVITIES		
Net increase (decrease) in deposits and escrow accounts	(70,635)	7,629
Proceeds from borrowings	0	355,863
Payments for borrowings matured and paid	(10,000)	(392,400)
Proceeds from exercise of stock options	4	
Purchase of treasury stock		(219)
Net cash used for financing activities	(80,631)	(29,127)
Decrease in cash equivalents	(8,812)	(6,479)
Cash and cash equivalents at January 1	60,247	40,305
Cash and cash equivalents at June 30	$ 51,435	$ 33,826

(a) Certain reclassifications have been made to conform to the 1992 presentation.

See Notes to Consolidated Financial Statements.

GATEWAY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note A - Basis of Presentation

The accompanying unaudited consolidated financial statements of Gateway Financial Corporation (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly,they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal-recurring accruals) considered necessary for fair presentation have been included. Operating results for the six-month period ended June 30, 1992 are not necessarily indicative of the results that may be expected for the year ended December 31, 1992. The balance sheet at December 31, 1991 has been derived from audited financial statements at that date. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1991.

Note B - Income Taxes

The Company's effective tax rate differs from the statutory federal rate for the six-month period ended June 30, 1992, principally due to loan loss provisions made for qualifying loans and loan workout expenses. Tax benefits are not recognized for loan loss provisions exceeding the amount calculated using the experience method.

Note C - Earnings Per Share

Earnings per share have been computed, based on the weighted-average number of shares outstanding. Average shares outstanding for the three-month periods ended June 30, 1992 and 1991 were 7,424,476 and 7,422,619, respectively. Weighted-average shares outstanding for the six-month periods ended June 30, 1992 and 1991 were 7,423,822 and 7,436,647, respectively. Fully-diluted earnings per share did not differ significantly from primary earnings per share in any period.

Note D - Contingencies and Commitments

Citizens National Bank (Citizens), a former wholly-owned subsidiary of Gateway Bank which was merged in December 1986 with and into the Bank, is named as one of approximately 75 defendants in a complaint commenced in April 1988 by M. Bassman Abaza, J.S., et al., currently pending before the U.S. District Court for the Southern District of New York. The complaint claims significant damages arising from an alleged fraud in connection with the formation of and conduct of business of certain real estate limited partnerships, some of which partnerships maintained deposit accounts with Citizens. Plaintiffs' counsel advised the court that it will dismiss the complaint against those peripheral defendants who

unknowingly participated in the events in question. Plaintiffs' counsel has advised the Bank's counsel that plaintiffs' counsel intends to file appropriate documents with the court dismissing the action against the Bank. In the opinion of management, based on its understanding of the allegations set forth in the complaint, its own internal investigation, and court proceedings to date, this action will not have any materially adverse effect on the Company's financial position.

Other than the action mentioned above, there are no other pending legal proceedings other than ordinary routine litigation incidental to the business of the Company, including a civil action commenced in March 1992 by a borrower, to which the Company is a party or to which any of its properties are subject. In the opinion of management, these matters will not have a material adverse effect on the Company's financial position.

GATEWAY FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Gateway Financial Corporation ("Gateway" or the "Company"), the holding company for Gateway Bank (the "Bank"), reported net income for the three months ended June 30, 1992 of $966,000, or net income per share of $.13, and net income of $3.3 million for the six months ended June 30, 1992, or net income per share of $.44. Included in the 1992 results is an extraordinary credit of $830,000, or $.11 per share, recognized during the quarter ended March 31, 1992, from the utilization of income tax net operating loss carryforwards. For the three and six-month periods ended June 30, 1991, Gateway reported net losses of $1.1 million, or a net loss per share of $.15, and $2.6 million, or a net loss per share of $.35, respectively. The improved results are due to the significant increase in core earnings, partly due to the acquisition of selected assets and the assumption of certain liabilities of the Bank Mart from the Federal Deposit Insurance Corporation (the "FDIC") in December 1991, increased gains on sales of residential mortgage loans, and also to a more favorable interest rate environment.

Net Interest Income:

Net interest income for the three months ended June 30, 1992 was $13.1 million, which represented a 74% increase over the $7.5 million reported for the comparable three-month period in 1991. Net interest income for the six months ended June 30, 1992 was $25.6 million, compared to $15.1 million for the six-month period in 1991, a 70% increase. As shown in the tables that follow, average interest-earning assets were $1.277 billion, and had a weighted average yield of 8.62% during the quarter ended June 30, 1992, compared to average interest-earning assets of $1.015 billion during the same quarter last year that yielded 9.75%. Average interest-bearing liabilities also reflect a significant increase in 1992, primarily due to The Bank Mart acquisition previously mentioned. For the three-month period ended June 30, 1992, average interest-bearing liabilities were $1.293 billion, and had a weighted average rate of 4.47%, compared to $1.022 billion during the same quarter last year that had a weighted average rate of 6.74%. The increase in volumes of funds employed by Gateway and the decrease in rates in 1992 result in the significant increase in net interest income and net interest rate spread. Spread for the quarter ended June 30, 1992 was 4.15%, compared to 3.01% during the same quarter last year.

For the six months ended June 30, 1992, average interest-earning assets were $1.299 billion, and yielded 8.70%, compared to $1.029 billion for the same period last year with a yield of 9.84%. Average interest-bearing liabilities reflect the same significant increase in the 1992 six-month period at $1.306 billion, having a weighted average rate of 4.73%, compared to $1.031 billion in 1991, which had a weighted average rate of 6.90%. This results in a net interest rate spread of 3.97% for the six-month period in 1992, compared to a spread of 2.94% for the same period in 1991. Prevailing interest rates are expected to remain at their present levels for at least the remainder of 1992, thus allowing Gateway to sustain the high levels of net interest income and net interest rate spread.

Three Months Ended
June 30,
(Dollars in Thousands)

	1992			1991		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Loans	$1,112,209	$ 24,269	8.73%	$ 878,049	$ 22,003	10.02%
Mortgage-backed securities	75,471	1,117	5.92	35,262	656	7.44
Investment securities	68,890	1,585	9.20	90,104	1,908	8.47
Other investments	20,467	551	10.77	11,517	167	5.80
Total interest-earning assets	1,277,037	27,522	8.62	1,014,932	24,734	9.75
Non interest-earning assets	155,906			131,924		
TOTAL	$1,432,943			$1,146,856		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Savings deposits	$ 214,912	$ 3,206	5.97%	$ 119,323	$ 1,635	5.48%
Other interest-bearing deposits	1,022,686	10,362	4.05	725,391	12,358	6.81
Advances from Federal Home Loan Bank	50,002	789	6.31	173,566	3,151	7.26
Securities sold under agreements to repurchase and other borrowings	5,230	90	6.88	4,030	83	8.24
Total interest-bearing liabilities	1,292,830	14,447	4.47	1,022,310	17,227	6.74
Non interest-bearing liabilities	60,520			34,872		
Stockholders' equity	79,593			89,674		
Total	$1,432,943			$1,146,856		
Net interest income		$ 13,075			$ 7,507	
Net interest rate spread			4.15%			3.01%
Net yield on interest-earning assets			4.10%			2.96%

Six Months Ended
June 30,
(Dollars in Thousands)

ASSETS	1992			1991		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
Loans	$1,104,585	$ 49,694	9.00%	$ 880,049	$ 44,064	10.01%
Mortgage-backed securities	82,663	2,502	6.05	44,255	2,424	10.95
Investment securities	89,470	3,540	7.91	92,794	3,801	8.19
Other investments	22,073	788	7.14	12,382	384	6.20
Total interest-earning assets	1,298,791	56,524	8.70	1,029,480	50,673	6.20
Non interest-earning asset	142,199			125,885		
TOTAL	$1,440,990			$1,155,365		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Savings Deposits	$ 201,741	5,007	4.96%	$ 116,869	3,185	5.45
Other interest-bearing deposits	1,044,694	23,957	4.59	729,010	25,391	6.97
Advances from Federal Home Loan Bank	54,946	1,737	6.32	175,580	6,616	7.54
Securities sold under agreements to repurchase and other borrowings	5,010	195	7.80	9,655	370	7.66
Total interest-bearing liabilities	1,306,391	30,896	4.73	1,031,114	35,562	6.90
Non interest-bearing liabilities	55,993			33,879		
Stockholders' equity	78,606			90,372		
Total	$1,440,990			$1,155,365		
Net interest income		$ 25,628			$ 15,111	
Net interest rate spread			3.97%			2.94%
Net yield on interest-earning assets			3.95%			2.94%

Provision for Loan Losses:

Because a substantial portion of Gateway's loans are collateralized by both residential and commercial real estate in depressed markets, primarily Fairfield County in Connecticut, the collectibility and recovery of loans outstanding are particularly susceptible to market conditions and market values in Fairfield County. Gateway is maintaining its allowance for loan losses at a level believed adequate by management to absorb potential losses in the loan portfolio through provisions to the allowance. Also, the Company performs quarterly reviews of selected loans in determining the appropriate level of the allowance for loan losses.

Provisions for loan losses were $3.6 million during the three months ended June 30, 1992, and $6.7 million for the six-month period. The provisions last year were $2.0 million, and $4.5 million for the three and six-month periods ended June 30, 1991, respectively. Net charge-offs were $5.6 million for the quarter, and $8.0 million for the six months ended June 30, 1992. The allowance for loan losses at June 30, 1992 was $26.9 million, and represented 2.41% of total loans and 42.7% of non-accruing loans and loans delinquent ninety days or mores.

Changes in the allowance for loan losses for the six months ended June 30, 1992 and 1991 are as follows:

	Residential Mortgage	Commercial & Construction Mortgage	Commercial	Consumer	Total
Balance at January 1, 1992	$7,881	$10,971	$ 4,878	$ 4,452	$28,182
Charge-offs	(254)	(2,591)	(3,791)	(1,628)	(8,264)
Recoveries	2		199	97	298
Net charge-offs	(252)	(2,591)	(3,592)	(1,531)	(7,966)
Provision for loan losses	50	2,300	3,900	450	6,700
Balance at June 30, 1992	$7,679	$10,680	$ 5,186	$ 3,371	$26,916
Balance at January 1, 1991	$4,579	$ 8,192	$ 7,548	$ 4,392	$24,711
Charge-offs	(242)	(874)	(2,477)	(1,868)	(5,461)
Recoveries	32		405	49	486
Net charge-offs	(210)	(874)	(2,072)	(1,819)	(4,975)
Provision for loan losses	325	1,325	1,700	1,150	4,500
Balance at June 30, 1991	$4,694	$ 8,643	$ 7,176	$ 3,723	$24,236

Other Income:

Gateway's other income is also significantly higher in 1992, due primarily to fixed-rate mortgage sales and to fees earned for servicing and collecting loans and other real estate for the FDIC on an interim basis in connection with the Bank Mart transaction. This interim servicing ended at June 30, 1992. Other income was $3.4 million for the three months ended June 30, 1992, and $6.3 million for the six-month period. In 1991, other income was $2.2 million, and $3.3 million for the three and six-month periods, respectively. Realized gains on sales of mortgages were $760,000 for the quarter ended June 30, 1992, and $2.3 million for the six-month period, compared to $1.3 million for both the quarter and six-month period in 1991.

Operating Expenses:

Operating expenses were also substantially higher in 1992, as a result of the acquisition of six Bank Mart bank offices and to higher other real estate owned and loan workout expenses. Total operating expenses were $11.8 million for the quarter, and $21.9 million for the six-month period in 1992, compared to $9.5 million, and $18.0 million for the three and six-month periods in 1991, respectively. Net other real estate owned and loan workout expenses were $3.7 million, and $6.1 million for the three and six months ended June 30, 1992, respectively, compared to $2.9 million and $5.2 million in the comparable 1991 periods. Increases in salaries and benefits, occupancy and equipment expenses, and FDIC deposit insurance premiums were a direct result of the Bank Mart acquisition.

Income Taxes:

Because of Gateway's return to profitability, income tax provisions of $117,000 and $947,000 were recorded during the three and six-month periods ended June 30, 1992, compared to net tax benefits of $683,000 and $1.5 million recorded during the comparable three and six-month periods in 1991. During the first quarter of 1992, an extraordinary credit of $830,000 which resulted from the utilization of net operating loss carryforwards was recorded.

Asset Quality:

Management's quarterly review of selected loans includes all loans classified as non-accrual, loans ninety days or more delinquent, construction loans, and those loans with special credit risks. Loans are normally classified as non-accrual whenever the payment of interest or principal is more than ninety days past due or when principal and accrued interest receivable exceed the realizable value of the loan in cash from the borrower or in the underlying collateral, should foreclosure or repossession be necessary. Insubstance foreclosed assets represent loan situations where foreclosure proceedings are expected, or the borrower retains little or no equity in the underlying real estate, or the repayment of the loan is expected only from the sale or operations of the property.

At June 30, 1992, non-performing assets totaled $125.6 million, compared to $130.7 million at March 31, 1992 and $124.9 million at December 31, 1991.

The components of net loans, non-performing loans, and total non-performing asset data for the periods indicated are as follows (in thousands):

	June 30, 1992	December 31, 1991	June 30, 1991
Residential mortgage	$ 711,218	$ 706,966	$536,235
Commercial and construction mortgage	163,227	173,026	113,940
Commercial	141,978	154,597	145,881
Consumer	101,157	108,328	92,093
	1,117,580	1,142,917	888,149
Allowance for loan losses	(26,916)	(28,182)	(24,236)
	$1,090,664	$1,114,735	$863,913

Non-performing loans and total non-performing assets for the periods indicated are as follows (dollars in thousands):

	June 30, 1992	December 31, 1991	June 30, 1991
Non-performing loans:			
Loans delinquent 90 days or more and still accruing	$ 968	$ 838	$ 3,596
Non-accruing loans	62,064	53,751	54,863
Total	63,032	54,589	58,459
Restructured loans	8,079	6,905	
Total non-performing loans	71,111	61,494	58,459
Other real estate owned:			
By foreclosure	20,404	21,307	26,341
Insubstance foreclosure	34,132	42,049	49,862
Total other real estate owned	54,536	63,356	76,203
Total non-performing assets	$ 125,647	$ 124,850	$134,662
Net charge-offs	$ 7,966	$ 17,329	$ 4,975
Provision for loan losses	6,700	12,800	4,500
Allowance for loan losses	26,916	28,182	24,236
Ratio of the allowance for loan losses to loans delinquent over 90 days and non-accruing loans	42.7%	51.6%	41.5%

Foreclosed and insubstance repossessed real estate were written down by $2.7 million during the second quarter of 1992, and $3.5 million year-to-date.

Liquidity and Capital Resources

The Company has demonstrated the ability to generate adequate funds to meet current and future operating needs. At June 30, 1992, cash and due from banks, federal funds sold, and investment securities with maturities of one year or less totaled $82.9 million, or 6.2% of all deposits and borrowings. Deposits payable on demand or maturing within one year and borrowings due within one year amounted to $1.13 billion, or 85% of the $1.32 billion in total deposits and borrowings. The Company does not expect to experience an outflow of the deposits that mature within one year that would significantly affect liquidity.

Maturities of certificates of deposit of $100,000 or more outstanding at June 30, 1992 are as follows (in thousands):

3 months or less	$18,436
Over 3 through 6 months	11,859
Over 6 through 12 months	16,499
Over 12 months	7,279
Total	$54,073

The Bank is a member of the Federal Home Loan Bank of Boston (FHLB) and as such, may borrow from the FHLB to secure additional funds. At June 30, 1992, the Bank has obtained $50 million in advances from the FHLB. The outstanding advances are collateralized by a blanket assignment of assets. The Bank is allowed to borrow amounts up to the value of selected available collateral. The approximate value of this collateral at June 30, 1992 was $605 million.

The Company also has 20,000,000 shares of authorized common stock and 1,000,000 shares of no-par-value preferred stock. As of June 30, 1992, no preferred stock was issued, and 7,424,619 common shares were outstanding, net of 584,000 treasury shares. The remaining unissued common and preferred shares are another potential source of capital for the Company.

Interest Rate Risk:

Gateway has sought to reduce interest rate risk by emphasizing assets that are short-term in nature or that reprice periodically. During 1992, the Bank has sold $45.7 million of fixed-rate residential mortgages into the secondary market, and has purchased $19.7 million of variable-rate mortgages. By increasing its level of rate-sensitive assets, Gateway reduces the potential volatility of net interest income as interest rates fluctuate.

The Company measures interest rate risk using a gap analysis, which is the difference between interest-earning assets and interest-bearing liabilities that mature or reprice within one year. Rate-sensitive loans include all loans that mature or reprice within one year, excluding non-performing loans, and deposits include only certificates of deposit that mature within one year. Gateway's one-year gap data in dollars and as a percent of total assets at June 30, 1992 compared to December 31, 1991 is as follows (dollars in thousands):

	June 30, 1992		
	Rate Sensitive	Total	%
INTEREST-EARNING ASSETS			
Loans	$ 513,406	$1,090,664	47.1%
Mortgage-backed securities		81,788	
Investment securities	10,594	65,603	16.1
Other investments	34,006	34,006	100.0
Other	$ 558,006	$1,272,061	43.9%
INTEREST-BEARING LIABILITIES			
Deposits	$ 757,364	$1,223,543	61.9%
Advances from Federal Home Loan Bank	20,000	50,000	40.0
Other borrowings		7,088	
Total	$ 777,364	$1,280,631	60.7%
Gap ($)	$(219,358)		
Gap to total assets	(15.5)%		

	December 31, 1991		
	Rate Sensitive	Total	%
INTEREST-EARNING ASSETS			
Loans	$ 577,899	$1,114,735	51.8%
Mortgage-backed securities	20,200	82,494	24.5
Investment securities	61,065	120,105	50.9
Other investments	45,924	46,023	99.8
Total	$ 705,088	$1,363,357	51.7%
INTEREST-BEARING LIABILITIES			
Deposits	$ 827,145	$1,297,070	63.8%
Advances from Federal Home Loan Bank	30,000	60,000	50.0
Securities sold under agreements to repurchase and other borrowings		6,813	
Total	$ 857,145	$1,363,883	62.8%
Gap ($)	$(152,057)		
Gap to total assets	(10.2)%		

The Company also seeks to improve its negative gap position by resolving non-performing asset situations and redeploying these funds into interest-earning, rate-sensitive assets.

Financial Condition:

Total assets of Gateway were $1.4 billion at June 30, 1992, compared to total assets of $1.5 billion at December 31, 1991. Although a strategy of growth through acquisitions has been employed, efforts to maintain adequate capital ratios during the current economic climate have resulted in the use of certain balance sheet reduction measures such as the sale of residential mortgages previously mentioned. In addition, other balance sheet reduction measures have resulted in an $82.7 million decrease in assets since December 31, 1991 and since the acquisition of Bank Mart.

On July 16, 1992, the Board of Directors of Gateway Bank entered into a Memorandum of Understanding ("MOU") with the Regional Director of the Federal Deposit Insurance Corporation ("Regional Director") and the Commissioner of Banking of the State of Connecticut ("Commissioner"), which supersedes the Memorandum of Understanding previously entered into among such parties and which became effective on January 10, 1991. Under the MOU, the Bank's Board of Directors agreed to take necessary steps to achieve certain goals, including, among others, the following: (i) to retain qualified management and develop a written management plan assessing the Bank's management and staffing needs; (ii) to increase the Bank's Tier 1 capital to 5.50% by December 31, 1992 and at least 6% of total assets by December 31, 1993, and develop a written capital plan to address sources of capital; (iii) to not pay or declare any dividends without the prior written consent of the Regional Director and the Commissioner; and (iv) to develop or revise written plans relating to the Bank's allowance for loan losses, its risk position with respect to certain borrowers, loan policies, earnings and profits, liquidity and interest rate risks, and investments.

Gateway Financial Corporation continues to operate under a Memorandum of Understanding entered into with the Federal Reserve Bank of New York (FRB) and the Board of Directors of the Company in December 1990. Pursuant to the Federal Reserve MOU, the Board has agreed not to declare cash dividends or to make significant expenditures, not in the ordinary course of business, without prior written approval of the Federal Reserve, and not to engage in any expansion activities without first consulting with the Federal Reserve.

The Bank, under its MOU, is to follow a plan to increase its Tier 1 or leverage capital ratio. The Company's and the Bank's leverage capital ratios were 5.39% and 5.36%, respectively, at June 30, 1992. Additionally, the Bank is required by the FDIC to maintain a minimum risk-based capital-to-assets ratio of 7.25%, increasing to 8% by December 31, 1992. At June 30, 1992, the Bank's risk-based capital-to-assets ratio was 10.19%. The Federal Reserve has requested that the Company seek to achieve a 6.25% regulatory capital-to-assets (leverage) ratio by September 30, 1992.

PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

A) Exhibits

None.

B) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended June 30, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Age of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GATEWAY FINANCIAL CORPORATION

Date: August 13, 1992

/S/ REGINALD DeKOVEN, III
Reginald DeKoven, III
President and Chief Executive Officer

Date: August 13, 1992

/S/ RICHARD A. MARTIN
Richard A. Martin
Vice President and Treasurer